

## Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name <b>JACKSON COUNTY ROAD COMMISSION</b>	County <b>JACKSON</b>
Audit Date <b>12/31/04</b>	Opinion Date <b>4/22/05</b>	Date Accountant Report Submitted to State: <b>8/15/05</b>	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

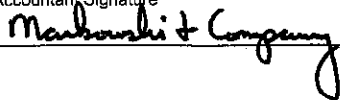
We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ Yes ☒ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☒ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☐ Yes ☒ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☒ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☒ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☒ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☒ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☒ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☒ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	✓		
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).			✓

Certified Public Accountant (Firm Name) <b>MARKOWSKI &amp; COMPANY CPAs</b>			
Street Address <b>2880 SPRING ARBOR RD</b>		City <b>JACKSON</b>	State <b>MI</b>
Accountant Signature 		ZIP <b>49203</b>	Date <b>8/15/05</b>

**JACKSON COUNTY ROAD COMMISSION**

(A COMPONENT UNIT OF JACKSON COUNTY, MICHIGAN)

ANNUAL FINANCIAL REPORT

DECEMBER 31, 2004

# JACKSON COUNTY ROAD COMMISSION

## ANNUAL FINANCIAL REPORT

### TABLE OF CONTENTS

	<u>PAGE NUMBER</u>
INDEPENDENT AUDITOR’S REPORT	1 - 2
MANAGEMENT’S DISCUSSION AND ANALYSIS	3 - 7
BASIC FINANCIAL STATEMENTS – GOVERNMENT–WIDE/GOVERNMENTAL FUND FINANCIAL STATEMENTS:	
Governmental Funds Balance Sheet/Statement of Net Assets	8
Statement of Governmental Fund Revenues, Expenditures, and Changes In Fund Balances/Statement of Activities	9
Notes to Financial Statements	10 - 28
REQUIRED SUPPLEMENTARY INFORMATION:	
Budgetary Comparison Schedule – Road Fund	29
Schedule of Funding Progress – Jackson County Employees’ Retirement System	30
ADDITIONAL INFORMATION:	
Analysis of Changes in Road Fund Balance	31 - 33

# MARKOWSKI & COMPANY

## CERTIFIED PUBLIC ACCOUNTANTS

2880 SPRING ARBOR ROAD • JACKSON • MICHIGAN • 49203

PHONE (517) 782-9351

FAX (517) 782-0599

K. LAVERNE MARKOWSKI, C.P.A.  
RONALD L. MARKOWSKI, C.P.A.  
DOUGLAS E. ATKINS, C.P.A.

### MEMBERS:

AMERICAN INSTITUTE OF  
CERTIFIED PUBLIC ACCOUNTANTS

MICHIGAN ASSOCIATION OF  
CERTIFIED PUBLIC ACCOUNTANTS

ESTATE PLANNING COUNCIL OF  
SOUTH CENTRAL MICHIGAN

## INDEPENDENT AUDITOR'S REPORT

To the Board of Road Commissioners  
Of Jackson County  
Jackson, Michigan

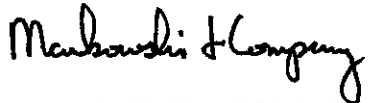
We have audited the accompanying basic financial statements of the **JACKSON COUNTY ROAD COMMISSION** (a component unit of Jackson County, Michigan) as of and for the year ended December 31, 2004, as listed in the table of contents. These basic financial statements are the responsibility of the Jackson County Road Commission's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the Jackson County Road Commission as of December 31, 2004, and the results of its operations for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis and the required supplementary information presented on pages 3 – 7 and 29 - 30 respectively are not a required part of the basic financial statements but are supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the supplemental information. However, we did not audit the information and express no opinion on it.

Our audit was made for the purpose of forming an opinion on the basic financial statements of the Jackson County Road Commission taken as a whole. The additional information listed in the table of contents is presented for the purpose of additional analysis and is not a required part of the basic financial statements of the Jackson County Road Commission. This information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.



MARKOWSKI & COMPANY, CPAs  
April 22, 2005

# **JACKSON COUNTY ROAD COMMISSION**

## **Management's Discussion and Analysis**

**Year Ended December 31, 2004**

---

### Using this Annual Report

The Jackson County Road Commission's discussion and analysis is designed to (a) assist the reader in focusing on significant financial issues, (b) provide an overview of the commission's financial activity, (c) identify changes in the commission's financial position (its ability to address the next and subsequent year challenges), (d) identify any material deviations from the approved budget and (e) identify any issues or concerns.

### Reporting the Road Commission as a Whole

The statement of net assets and the statement of activities report information about the commission as a whole and about its activities in a way that helps answer the question of whether the commission as a whole is better off or worse off as a result of the year's activities. These statements include all assets and liabilities using the accrual basis of accounting which is similar to the accounting method used by most private-sector companies. All of the year's revenues and expenses are taken into account regardless of when cash is received or paid.

The two statements mentioned above, report the commission's net assets and changes in them. The reader can think of the commission's net assets (the difference between assets and liabilities) as one way to measure the commission's financial health or financial position. Over time, increases or decreases in the commission's net assets are one indicator of whether its financial health is improving or deteriorating.

### Reporting the Commission's Major Fund

Our analysis of the commission's major fund begins on page 4. The fund financial statements begin on page 8 and provide detailed information about the major fund. The commission currently has only one fund, the general operations fund, in which all of the commission's activities are accounted. The general operations fund is a governmental fund type.

- Governmental fund – Governmental fund focus on how money flows into and out of this fund and the balances left at year-end that are available for spending. This fund is reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the commission's general governmental operations and the basic service it provides. Governmental fund information helps the reader to determine whether there are more or fewer financial resources that can be spent in the near future to finance the commission's services. We describe the relationship (or differences) between governmental activities (reported in the statement of net assets and the statement of activities) and the governmental fund in a reconciliation following the fund financial statements.

# JACKSON COUNTY ROAD COMMISSION

## Management's Discussion and Analysis

Year Ended December 31, 2004

---

### *The Road Commission as a Whole*

Net assets may, over time, enable governmental agencies to determine their overall fiscal position. As shown in the condensed statement of net assets below, the Road Commission's assets exceed liabilities by \$71,855,127.

The commission's net assets increased approximately 6.3% from \$67,606,945 to \$71,855,127 for the year ended December 31, 2004.

Net assets as of the years ending December 31, 2004 and December 31, 2003 follows:

### **Condensed Statement of Net Assets December 31, 2004 and 2003**

	2004	2003
<b>Assets:</b>		
Current and other assets	\$ 7,668,932	\$ 6,696,334
Capital assets	65,516,691	62,805,547
Total assets	<u>\$ 73,185,623</u>	<u>\$ 69,501,881</u>
<b>Liabilities:</b>		
Long-term liabilities outstanding	\$ 271,433	\$ 261,595
Other liabilities	1,059,063	1,633,341
Total liabilities	<u>1,330,496</u>	<u>1,894,936</u>
<b>Net Assets:</b>		
Invested in capital assets	65,516,691	62,805,547
Invested in inventory	1,645,378	1,734,729
Unrestricted	4,693,058	3,066,669
Total net assets	<u>71,855,127</u>	<u>67,606,945</u>
Total liabilities and net assets	<u>\$ 73,185,623</u>	<u>\$ 69,501,881</u>

# JACKSON COUNTY ROAD COMMISSION

## Management's Discussion and Analysis

Year Ended December 31, 2004

---

### Condensed Statement of Activities

Years Ended December 31, 2004 and 2003

	2004	2003
<b>Revenues:</b>		
Program revenues:		
Charges for services	\$ 2,274,319	\$ 2,163,309
Federal grants	2,000,492	1,032,557
State grants	13,191,677	12,033,712
Intergovernmental revenues	852,683	625,153
Generated revenues:		
Interest income	86,651	31,598
Property rentals	30,248	24,139
Gain on asset disposal	257,802	207,334
Other general revenues	186,316	205,882
Total revenues	<u>18,880,188</u>	<u>16,323,684</u>
<b>Program expenses:</b>		
Primary roads:		
Maintenance	\$ 3,947,605	\$ 4,354,896
Local roads:		
Heavy maintenance	32,965	34,539
Maintenance	4,222,293	4,137,011
State trunkline:		
Maintenance	2,183,960	2,025,368
Non-maintenance	97,225	133,047
Equipment expense (net)	93,698	53,277
Administrative expense (net)	590,935	621,098
Depreciation	3,463,325	3,295,053
Total expenses	<u>14,632,006</u>	<u>14,654,289</u>
Change in net assets	<u>\$ 4,248,182</u>	<u>\$ 1,669,395</u>



# JACKSON COUNTY ROAD COMMISSION

## Management's Discussion and Analysis

Year Ended December 31, 2004

---

### The Road Commission's Fund

The Road commission's general operations fund is used to control the expenditures of Michigan Transportation Fund monies distributed to the county which are earmarked by law for road and highway purposes.

For the year ended December 31, 2004 the fund balance of the general operations fund increased \$1,611,569 as compared to a decrease of \$ 33,486 in the fund balance for the year ended December 31, 2003.

### Budgetary Highlights

Prior to the beginning of any year, the commission's budget is compiled based upon certain assumptions and facts available at that time. During the year, the road commission board acts to amend its budget to reflect changes in these original assumptions, facts and/or economic conditions that were unknown at the time the original budget was compiled. In addition, by policy, the board reviews and authorizes large expenditures when requested throughout the year. The revenue and expenditure budgets were as expected for 2004.

### Capital Asset and Debt Administration

#### Capital Assets

As of December 31, 2004 and 2003 the commission had \$ 65,516,691 and \$62,805,547, respectively, invested in capital assets as follows:

	<u>2004</u>	<u>2003</u>
Capital assets not being depreciated:		
Land and improvements	\$ 923,080	\$ 923,080
Infrastructure land and improvements	15,147,794	15,034,177
Total capital assets not being depreciated	<u>16,070,874</u>	<u>15,957,257</u>
Other capital assets:		
Buildings and improvements	5,739,844	5,683,365
Road equipment	11,689,336	12,118,442
Other equipment/assets	2,093,064	2,149,440
Infrastructure	73,016,161	69,695,894
Total other capital assets	<u>92,538,405</u>	<u>89,647,141</u>
Less - Accumulated depreciation	<u>(43,092,588)</u>	<u>(42,798,851)</u>
Net other capital assets	<u>49,445,817</u>	<u>46,848,290</u>
Total capital assets (net)	<u><u>\$ 65,516,691</u></u>	<u><u>\$ 62,805,547</u></u>

# JACKSON COUNTY ROAD COMMISSION

## Management's Discussion and Analysis

Year Ended December 31, 2004

---

Current year's major additions included the following:

**Reconstruction of bridges:**

Van Wert Road bridge	\$	496,528
Gates Road bridge	\$	271,406

**Road reconstruction:**

Lansing Avenue from Henry to Perrine	\$	1,041,570
Lansing Avenue from Van Horn to Henry	\$	1,009,103
Lansing Avenue from City Limits to Parnall	\$	687,958
Lansing Avenue from Losey to County Line	\$	493,030

<b>Heavy equipment</b>	\$	859,082
------------------------	----	---------

### Debt

The road commission currently experiences a relatively debt free status. The road commission currently has long-term debt in the amount of \$ 271,433 which represents compensated absences payable.

### Economic Factors and Next Year's Budget

The Board of County Road Commissioners considered many factors when setting the fiscal year 2005 budget. One of the factors is the economy. The commission derives approximately 64% of its revenues from the fuel tax collected. The recent economic downturn has resulted in less consumption of fuel and consequently less Michigan Transportation Funds tax to be distributed. Investment income on the cash in our fund balance will continue to be low.

The Board realizes, and the reader should understand, that there are not sufficient funds available to repair and/or rebuild every road in Jackson County's transportation system; therefore, the board attempts to spend the public's money wisely and equitably and in the best interest of the motoring public and the citizens of Jackson County.

### Contacting the Commission's Financial Management

This financial report is designed to provide the motoring public, citizens and other interested parties a general overview of the commission's finances and to show the commission's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the Jackson County Road Commission administrative offices at 2400 North Elm Road, Jackson, MI 49201.

JACKSON COUNTY ROAD COMMISSION

BASIC FINANCIAL STATEMENTS:

GOVERNMENT WIDE/FUND FINANCIAL STATEMENTS

NOTES TO FINANCIAL STATEMENTS

**JACKSON COUNTY ROAD COMMISSION**  
**GOVERNMENTAL FUNDS BALANCE SHEET/STATEMENT OF NET ASSETS**  
**DECEMBER 31, 2004**

<b>Assets</b>	<u>Governmental Funds</u>	<u>Adjustments</u>	<u>Statement of Net Assets</u>
Cash and investments	\$ 2,189,826	\$ -	\$ 2,189,826
Receivables	2,374,661	-	2,374,661
Inventory	1,645,378	-	1,645,378
Capital assets - Net:			
Assets not being depreciated	-	16,070,874	16,070,874
Assets being depreciated (Net)	-	49,445,817	49,445,817
Receivables - Noncurrent	630,547	-	630,547
Deposits with Jackson County	828,520	-	828,520
Total Assets	<u>\$ 7,668,932</u>	<u>\$ 65,516,691</u>	<u>\$ 73,185,623</u>

**Liabilities and Fund Balances/Net Assets**

**Liabilities**

Accounts payable	164,093	-	164,093
Accrued liabilities	74,635	-	74,635
Accrued payroll	75,520	-	75,520
Performance bonds payable	93,190	-	93,190
Advances	651,625	-	651,625
Deferred revenue	680,508	(680,508)	-
Total current liabilities	1,739,571	(680,508)	1,059,063
Long-term liabilities	-	271,433	271,433
Total liabilities	<u>1,739,571</u>	<u>(409,075)</u>	<u>1,330,496</u>

**Fund Balances:**

Reserved for inventories	2,473,898
Unreserved and undesignated	<u>3,455,463</u>
Total fund balances	<u>5,929,361</u>
Total liabilities and fund balances	<u>\$ 7,668,932</u>

**Net Assets:**

Invested in capital assets	65,516,691
Invested in inventory	1,645,378
Unrestricted	<u>4,693,058</u>
Total net assets	<u>\$ 71,855,127</u>

The notes to the financial statements are an integral part of this statement.

**JACKSON COUNTY ROAD COMMISSION**  
**STATEMENT OF GOVERNMENTAL REVENUES, EXPENDITURES, AND**  
**CHANGES IN FUND BALANCE/STATEMENT OF ACTIVITIES**  
**THE YEAR ENDED DECEMBER 31, 2004**

	Governmental Funds	Adjustments	Statement of Activities
<b>Revenues:</b>			
Permits	\$ 62,634	\$ -	\$ 62,634
Federal grants	2,000,492	-	2,000,492
State sources	13,191,677	-	13,191,677
Local government sources	844,106	8,577	852,683
Charges for services	2,274,319	-	2,274,319
Interest and rentals	116,899	-	116,899
Special assessments	73,270	(73,270)	-
Gain on asset disposals	213,683	44,119	257,802
Other revenues	123,682	-	123,682
Total revenues	<u>18,900,762</u>	<u>(20,574)</u>	<u>18,880,188</u>
<b>Expenditures/Expenses:</b>			
Primary roads - Construction/heavy maintenance	4,106,523	(4,106,523)	-
Local roads - Construction/heavy maintenance	2,348,449	(2,315,484)	32,965
Primary roads - Routine maintenance	3,947,605	-	3,947,605
Local roads - routine maintenance	4,222,293	-	4,222,293
State trunkline maintenance	2,281,185	-	2,281,185
Administrative - Net	581,097	9,838	590,935
Equipment expense - Net	93,698	-	93,698
Depreciation expense	-	3,463,325	3,463,325
Capital outlay - Net	(291,657)	291,657	-
Total expenditures/expenses	<u>17,289,193</u>	<u>(2,657,187)</u>	<u>14,632,006</u>
<b>Excess of Revenues Over (Under)</b>			
<b>Expenditures/Change in Net Assets</b>	1,611,569	2,636,613	4,248,182
<b>Fund Balance/Net Assets - Beginning</b>	<u>4,317,792</u>	-	<u>67,606,945</u>
<b>Fund Balance/Net Assets - Ending</b>	<u>\$ 5,929,361</u>	<u>\$ 2,636,613</u>	<u>\$ 71,855,127</u>

The notes to the financial statements are an integral part of this statement.

# JACKSON COUNTY ROAD COMMISSION

## INDEX TO THE NOTES TO THE FINANCIAL STATEMENTS

<u>NOTE</u>	<u>TITLE</u>	<u>PAGE NUMBER</u>
1	SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:	
	A. Reporting Entity	10
	B. Basic Financial Statements – Government-Wide/Governmental Fund Financial Statements	10
	C. Measurement Focus, Basis of Accounting and Financial Statement Presentation	11
	D. Budgetary Procedures	12
	E. Cash, Cash Equivalents, and Investments	12
	F. Inventories	13
	G. Capital Assets and Depreciation	13
	H. Estimates	13
2	RECONCILIATION OF THE GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS	14
3	STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY	15
4	CASH, CASH EQUIVALENTS, AND INVESTMENTS	15
5	RECEIVABLES/DEFERRED REVENUE	16
	A. Current Receivables	16
	B. Special Assessments	17
	C. Township Road Agreements	17
6	INVENTORIES	18
7	CAPITAL ASSETS	18
8	DEPOSITS WITH JACKSON COUNTY	19
	A. Retiree Health Care Benefit Trust	19
	B. Self-Funded Managed Care Health Insurance Program	19
9	ACCRUED LIABILITIES	19
10	ADVANCES	20
11	LONG-TERM LIABILITIES	20
12	FUND EQUITIES/NET ASSETS	20
	A. Governmental Fund Financial Statements – Reserves and Designations	20

# JACKSON COUNTY ROAD COMMISSION

## INDEX TO THE NOTES TO THE FINANCIAL STATEMENTS (Continued)

<u>NOTE</u>	<u>TITLE</u>	<u>PAGE NUMBER</u>
13	FEDERAL GRANTS	21
14	EXPENDITURE/EXPENSE REPORTING	22
15	EMPLOYEES' RETIREMENT PLAN	23
	A. Employee Membership Data	23
	B. Benefit Provisions	23
	C. Required Contributions	24
16	COMMITMENTS AND CONTINGENCIES	26
	A. Claims and Lawsuits	26
	B. Trunkline Maintenance Audit	26
	C. Commitments to Townships	26
	D. Concentrations	26
17	RISK MANAGEMENT	26
	A. Liability Insurance	27
	B. Health Insurance	27
	C. Workers Compensation	27
18	POST – EMPLOYMENT HEALTH BENEFITS	27

## JACKSON COUNTY ROAD COMMISSION

### NOTES TO THE FINANCIAL STATEMENTS

#### NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

##### A. Reporting Entity:

The Jackson County Road Commission is a Component Unit of the County of Jackson. The Road Commission is administered by a full time Board comprised of three Commissioners, appointed to staggered six year terms by the Jackson County Board of Commissioners. The Road Commission accounts for the Michigan Transportation Fund revenues distributed to Jackson County, and all other revenues provided for the construction and maintenance of primary and local roads within Jackson County (exclusive of those located within Cities and Villages). As of December 31, 2004, there were approximately 1,936 miles of roads maintained by the Jackson County Road Commission – 652 miles of paved primary roads, and 972 miles of paved and 312 miles of gravel local roads.

The financial statements of the Road Commission have been prepared in conformity with accounting principles generally accepted in the United States of America as applied to governmental units. The Government Accounting Standards Board (GASB) is the accepted standards-setting body for establishing governmental accounting and financial reporting principles. In the government-wide financial statements, Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989 have been applied unless they conflict with or contradict GASB pronouncements, in which case the GASB pronouncements prevail. The more significant of the Road Commission's accounting policies are described below.

Effective January 1, 2002 the Road Commission implemented the provisions of GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*. Some of the significant changes in the Road Commission's financial reporting as a result of this statement include:

A Management Discussion and Analysis (MD&A) section providing an analysis of the Road Commission's overall financial position and results of operations is included with the financial statements.

Government-wide financial statements prepared using the full accrual accounting for all of the Road Commission's activities, including infrastructure (roads, bridges, etc.).

A change in the fund financial statements to focus on the major fund.

##### B. Basic Financial Statements – Government-Wide and Governmental Fund Financial Statements:

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all activities of the Road Commission. The Road Commission consists solely of governmental-type activities; it has no business-type activities.



# **JACKSON COUNTY ROAD COMMISSION**

## **NOTES TO THE FINANCIAL STATEMENTS**

### **NOTE 1 – SUMMARY OF SIGNIFICANT POLICIES:** (Continued)

#### **B. Basic Financial Statements – Government-Wide and Governmental Fund Financial Statements:** (Continued)

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenue. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to users or applicants who purchase, use or directly benefit from goods, services, or privileges provided by a given function or segment; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other income not properly included among program revenues are reported instead as general revenue.

The fund financial statements are provided for governmental funds, and have been separately stated in conjunction with the government-wide financial statements.

Major individual governmental funds are reported as separate columns in the fund financial statement.

#### **C. Measurement Focus, Basis of Accounting and Financial Statement Presentation:**

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when the liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The Road Commission uses funds and account groups to report on its financial position and results of operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain functions or activities.

Governmental fund financial statements are reported using the current financial resources measurement focus and a modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Road Commission considers revenues to be available if they are collected within 60 days of the fiscal year end.

Expenditures are generally recorded when a liability is incurred, as under accrual accounting. However, expenditures related to compensated absences and claims and judgments are recorded only when payment is due.

Noncurrent receivables, such as special assessments and township agreements, are recorded at full value and deferred revenue is recorded for the portion not available for use to finance operations as of year end.

Interest earned on investments is recorded on the accrual basis. Interest charged on special assessment installments is not accrued until its due date.

## JACKSON COUNTY ROAD COMMISSION

### NOTES TO THE FINANCIAL STATEMENTS

#### NOTE 1 – SUMMARY OF SIGNIFICANT POLICIES: (Continued)

##### C. Measurement Focus, Basis of Accounting and Financial Statement Presentation:

The Road Commission reports the following major fund:

##### **Special Revenue Fund:**

**Road Fund** – This fund is used to account for Michigan Transportation Fund monies and other monies which are earmarked for street and highway activities.

##### D. Budgetary Procedures

Budgetary procedures are established pursuant to Michigan Act 621 PA 1978, as amended, (MCL 141.421). This act requires the commissioners to approve a budget for the general operating fund. Pursuant to the Act, the Road Commission has adopted the following procedures:

The Road Commission's Chief Administrative Officer (the secretary – clerk) prepares and submits a proposed Operating Fund budget to the Board of Road Commissioners for its review and consideration. The budget is prepared at the category level (Primary Construction/Heavy Maintenance, Primary Routine Maintenance, etc.). The Board of Road Commissioners conducts public budget hearings and subsequently adopts a budget. This budget is prepared on the modified accrual basis of accounting, which is the same basis as the financial statements.

The budget as presented has been amended during the year by official action of the board, taken at a public meeting. All budget appropriations lapse at year end.

The Operating Fund budget of the Jackson County Road Commission includes an amount appropriated for an item called the Distributive Expense. The Distributive Expense consists of indirect costs related to construction projects (such as supervisory labor and fringes, etc.). For financial statement purposes, the Distributive Expense has been proportionately allocated to the other expense line items. As a result of this, comparison of budgeted to actual expense by line item can be misleading. This method does comply with the Michigan Department of Transportation guidelines.

##### E. Cash, Cash Equivalents, and Investments

All investments of the Road Commission are reported at cost. It is the policy of the Road Commission that all investments with an original maturity of 90 days or less are accounted for as cash equivalents. The Road Commission's investments are made through the Jackson County Treasurer, thus providing for increased interest rates and revenue.

# JACKSON COUNTY ROAD COMMISSION

## NOTES TO THE FINANCIAL STATEMENTS

### NOTE 1– SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (Continued)

#### F. Inventories

Inventories are valued at cost as determined on the first-in, first-out method using average costs. Inventory items are charged to road construction, equipment maintenance, repairs, and operations as they are used.

#### G. Capital Assets and Depreciation

Capital assets, which include property, plant, equipment and infrastructure assets (e.g. roads, bridges and similar items) are reported in the general operating fund in the government-wide financial statements. The Road Commission considers assets with an initial individual cost of \$500 or more and an estimated useful life in excess of one year to be a capital asset. Capital assets are recorded at their historical cost (or, in the case of infrastructure assets, at estimated historical cost). Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repair and maintenance are expensed as incurred.

Depreciation is computed on the sum-of-the-years-digits method for road equipment, and the straight-line method for all other assets. Estimated useful lives are used as follows:

	Years
Buildings and Improvements	10-40
Road Equipment	5-8
Other Equipment	3-10
Gravel Pits	Actual usage
Infrastructure	8-50

GASB Statement No. 34 requires the Road Commission to report and depreciate new infrastructure assets effective with the beginning of the year. The Road Commission also elected to retroactively report existing infrastructure assets in the current year. Historically, the cost of infrastructure construction and heavy maintenance has been reported as an expense in the financial statements. Depreciation has not been reported on these assets. The cost of infrastructure retroactively capitalized was developed using the historical records for construction and heavy maintenance costs incurred, as heavy maintenance extends the useful life of the infrastructure. When an infrastructure asset is fully depreciated, both the cost and accumulated depreciation are removed from the fixed asset records.

#### H. Estimates:

The preparation of financial statements in accordance with generally accepted accounting principles requires management to make estimates and assumptions that effect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

# JACKSON COUNTY ROAD COMMISSION

## NOTES TO THE FINANCIAL STATEMENTS

### NOTE 2 – RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS:

Amounts reported in the government-wide financial statements are different from amounts reported in the governmental funds because of the following:

<b>Governmental funds fund balance</b>	\$ 5,929,361
Capital assets used in governmental activities; these are not financial resources and are not reported in the funds	65,516,691
Special assessment and township receivables which are not collected within 60 days of year end are not available to pay current year expenditures. In the fund financial statements, a deferred revenue is established.	508
Compensated absences are not payable from current resources; a liability is not recognized in the fund financial statements.	<u>(271,433)</u>
<b>Government-wide net assets</b>	<u><u>\$ 71,175,127</u></u>
<b>Net changes in fund balances - Total governmental funds</b>	\$ 1,611,569
Capital asset acquisitions are reported as expenditures in the governmental fund financial statements; in the statement of activities, these costs are expensed over the useful life of the asset through depreciation. (The remaining heavy maintenance expense represents the cost of projects performed for others).	7,420,075
Depreciation	(4,698,821)
Proceeds from the sale of capital assets are reported as revenue in the governmental fund financial statements; only the net gain (loss) on the disposal of capital assets is reported in the statement of activities.	(10,110)
Special assessment and township road agreement billings are reported as revenue in the period billed in the statement of activities; they are not reported as revenue in the governmental fund financial statements until collected or collectable within 60 days of year end.	(64,693)
Accumulated sick and vacation pay is reported as an expense in the statement of activities when earned by employees; the governmental fund financial statements report the expenditure when paid to the employee.	<u>(9,838)</u>
<b>Change in net assets of governmental activities</b>	<u><u>\$ 4,248,182</u></u>

## **JACKSON COUNTY ROAD COMMISSION**

### **NOTES TO THE FINANCIAL STATEMENTS**

#### **NOTE 3 – STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY:**

Michigan Public Act 621 of 1978, as amended, requires budgets amendments as needed to prevent actual expenditures from exceeding those provided for in the budget. For the year ended December 31, 2004, the Road Commission's expenditures did not exceed its final amended budget.

#### **NOTE 4 – CASH, CASH EQUIVALENTS, AND INVESTMENTS:**

Cash, cash equivalents, and investments of the Road Commission can be defined as follows - Cash and cash equivalents consist of cash on hand, deposits (checking accounts), and investments with an original maturity no greater than 90 days. Deposits are at two local banks, with accounts in both its name and the name of the County Treasurer. The Road Commission invests its surplus funds through the County Treasurer.

These surplus funds are invested in accordance with state law and Board resolution. Authorized investments include:

(1) Bonds, securities and other obligations of the United States or an agency or instrumentality of the United States; (2) Certificates of deposit, savings accounts, deposit accounts or depository receipts of a financial institution (but only if the financial institution is eligible to be a depository of funds belonging to the state under a law or rule of this state or the United States; (3) Commercial paper rated at the time of purchase within the highest classification established by not less than two standard rating services. And that matures not more than 270 days from the purchase date; (4) Repurchase agreements consisting of instruments listed in subdivision (1) above; (5) Bankers' acceptances of United States banks; (6) Mutual funds registered under the Investment Company Act of 1940, that maintain a \$1.00 per share net asset value, and with authority to purchase only investment vehicles that are legal for direct investment by a public corporation; (7) Obligations described in (1) through (6) as named above if purchased through an interlocal agreement under the Urban Cooperation Act of 1967; (8) Investment pools organized under the Surplus Funds Investment Act, 367 of 1982; (9) Investment pools organized under the Local Government Investment Pool Act, 121 of 1985.

(The above statute references refer to Michigan Public Acts).

# JACKSON COUNTY ROAD COMMISSION

## NOTES TO THE FINANCIAL STATEMENTS

### NOTE 4 – CASH, CASH EQUIVALENTS, AND INVESTMENTS: (Continued)

The risk disclosure for the Road Commission's cash and cash equivalents, as required by GASB Statement No. 3, is as follows:

	<u>CARRYING AMOUNT</u>	<u>BANK BALANCE</u>
Cash on Hand	\$ 250	\$ -
Insured (FDIC)	100,000	100,000
Uninsured	<u>2,089,576</u>	<u>2,432,166</u>
	<u>\$ 2,189,826</u>	<u>\$ 2,532,166</u>

The Road Commission did not violate any of the provisions of its investment policies or state laws during the year ended December 31, 2004.

The cash at December 31, 2004 includes monies from performance bonds deposited by contractors with the County Treasurer in the County's Trust and Agency bank account. An offsetting liability has been established for the performance bonds payable. The balance payable, upon completion of projects with no damage to County roads, at December 31, 2004 was \$93,190.

### NOTE 5 – RECEIVABLES/DEFERRED REVENUE:

#### A. Current Receivables:

Receivables at December 31, 2004 consist of accounts receivable from the ordinary course of operations, MTF funds for November and December due from the State, trunkline maintenance contract reimbursements and advances due from the State, current year special assessment collections due from the Jackson County Treasurer (due in May 2005), and payments due under Township road agreements.

Accounts receivable	\$ 37,833	
Special assessments receivable - current	49,961	
Due from other governments:		
MTF collections	\$ 1,801,680	
State trunkline maintenance	327,252	
State maintenance - Other	359	
Township road agreements - Current	<u>157,576</u>	<u>2,286,867</u>
		<u>\$ 2,374,661</u>

The noncurrent receivables reported on the statement of net assets consist of special assessment and township road agreement payments not due within the next fiscal year.

# JACKSON COUNTY ROAD COMMISSION

## NOTES TO THE FINANCIAL STATEMENTS

### NOTE 5 – RECEIVABLES/DEFERRED REVENUE: (Continued)

#### B. Special Assessments:

In accordance with state statute, the Road Commission will pave local streets within subdivisions or residential areas following a process which is initiated by the request of at least 51% of benefiting property owners. It is the Road Commission's policy to spread the resident's payments out over a five year period by levying a special assessment on each winter tax bill. The winter tax bills are sent to property owners in December, and are due without penalty by February 14 of the following year. Interest is charged on installments after the first one, and prepayment is allowed. The Jackson County Treasurer collects the assessments and distributes the collections to the Road Commission each May.

Because the revenue is not available to the Road Commission within sixty days of year end, a deferred revenue liability account is established in the governmental fund financial statements to offset the receivable.

#### C. Township Road Agreements:

The Road Commission also paves certain local roads under a cost sharing agreement with the local townships. One half of the estimated project cost will be reimbursed by the township over a five year period. Installments are billed each December, and are payable upon receipt. The first three installments are interest free, each installment after that includes an interest charge. Prepayment is allowed. Because the installments billed in December 2004 will be collected within sixty days of year end, it is recognized as revenue in the governmental fund financial statements during 2004. A deferred revenue liability is established in the governmental fund financial statements for the remaining installments.

Installment billed/ levied in December	Noncurrent Receivable			Deferred Revenue
	Special Assessments	Twsp. Road Agreements	Total	
2004	\$ -	\$ -	\$ -	\$ 49,961
2005	41,035	354,107	395,142	395,142
2006	21,852	206,444	228,296	228,296
2007	7,109	-	7,109	7,109
	<u>\$ 69,996</u>	<u>\$ 560,551</u>	<u>\$ 630,547</u>	<u>\$ 680,508</u>

The deferred revenue from the installment billed/levied in December 2004 consists of \$49,961 of special assessments levied that will not be received by the Road Commission until May 2005.

# JACKSON COUNTY ROAD COMMISSION

## NOTES TO THE FINANCIAL STATEMENTS

### NOTE 6 – INVENTORIES:

The inventory at December 31, 2004 consisted of the following:

	Amount
Equipment materials and parts	\$ 270,868
Road materials	1,374,510
	<u>\$ 1,645,378</u>

### NOTE 7 – CAPITAL ASSETS:

Capital asset activity for the year was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
<b>Governmental Activities:</b>				
Capital assets not being depreciated:				
Land and land improvements	\$ 923,080	\$ -	\$ -	\$ 923,080
Infrastructure land and land improvements	15,034,177	113,617	-	15,147,794
Subtotal	<u>15,957,257</u>	<u>113,617</u>	<u>-</u>	<u>16,070,874</u>
Capital assets being depreciated:				
Buildings and improvements	5,683,365	56,479	-	5,739,844
Road Equipment	12,118,442	859,082	(1,288,188)	11,689,336
Other equipment	1,601,366	82,508	(138,884)	1,544,990
Gravel pits	548,074	-	-	548,074
Infrastructure	69,695,894	6,308,389	(2,988,122)	73,016,161
Subtotal	<u>89,647,141</u>	<u>7,306,458</u>	<u>(4,415,194)</u>	<u>92,538,405</u>
Less - accumulated depreciation for:				
Buildings and improvements	(3,508,593)	(213,726)	-	(3,722,319)
Road Equipment	(9,483,075)	(917,310)	1,278,078	(9,122,307)
Other equipment	(1,264,154)	(113,761)	138,884	(1,239,031)
Gravel pits	(147,017)	-	-	(147,017)
Infrastructure	(28,396,012)	(3,454,024)	2,988,122	(28,861,914)
Subtotal	<u>(42,798,851)</u>	<u>(4,698,821)</u>	<u>4,405,084</u>	<u>(43,092,588)</u>
Net capital assets being depreciated	<u>46,848,290</u>	<u>2,607,637</u>	<u>(10,110)</u>	<u>49,445,817</u>
Net capital assets	<u>\$ 62,805,547</u>	<u>\$ 2,721,254</u>	<u>\$ (10,110)</u>	<u>\$ 65,516,691</u>



# JACKSON COUNTY ROAD COMMISSION

## NOTES TO THE FINANCIAL STATEMENTS

### NOTE 8 – DEPOSITS WITH JACKSON COUNTY:

#### A. Retiree Health Care Benefit Trust:

During 2004, the Road Commission deposited \$500,000 in a trust fund with Jackson County in an effort to begin funding its post-retirement health insurance obligation, under the authority of the Public Employee Health Care Fund Investment Act (Public Act 149 of 1999). The Road Commission authorized the County Treasurer to invest these assets in accordance with the Public Employee Retirement Investment Act (Public Act 314 of 1965). The Road Commission is carrying the net asset held by the County in the trust fund as a deposit. Investment income, net of administrative expenses, has been recognized in the Road Commission's fund financial statements as interest revenue.

#### B. Self-Funded Managed Care Health Insurance Program:

The Road Commission participates with the County in a self-funded health insurance program. The Road Commission sends estimated premiums to the County fund (an internal service fund), which pays claims as presented (and accrues an allowance for claims incurred but not reported). The Road Commission recognizes the actual expenses in its financial statements, and the increase or decrease in its portion of the internal service fund as a change in the deposit with the County.

The deposits, and the current year changes in them, can be summarized as follows:

	Retiree Health Care Benefit Trust	Self-Funded Managed Care	Total
Deposit balance - Beginning of year	\$ -	\$ 86,832	\$ 86,832
Contributions/premiums paid to County	500,000	1,470,890	1,970,890
Investment income (net of related expenses)	54,607	-	54,607
Expenses - Claims paid (net of reimbursements)	-	(1,283,809)	(1,283,809)
Current year change in deposits	554,607	187,081	741,688
Deposit balance - End of year	\$ 554,607	\$ 273,913	\$ 828,520

Additional information on both of these balances is available in the County of Jackson audit report.

### NOTE 9 – ACCRUED LIABILITIES:

The accrued liability at December 31, 2004 recognizes the amount of trunkline maintenance funds from 2002 to be returned to the State of Michigan following the state's audit of expenditures charged to the maintenance contract. As a result, a liability of \$74,635 has been established.

# JACKSON COUNTY ROAD COMMISSION

## NOTES TO THE FINANCIAL STATEMENTS

### NOTE 10 – ADVANCES:

As part of its agreement with the Michigan Department of Transportation (MDOT) to maintain state and federal highways (trunklines) within Jackson County and portions of Lenawee County, MDOT provides upfront cash to assist with cash flow for equipment and operating purposes. The amount advanced is reviewed annually, and is to be returned upon termination of the contract. At December 31, 2004, these advances totaled \$651,625. As such, this money is reported as a liability by the Road Commission.

### NOTE 11 – LONG-TERM LIABILITIES:

The long – term liabilities of the Jackson County Road Commission consists of the following at December 31, 2004:

#### Accrued Compensated Absences:

Paid time off is earned in varying amounts, depending on the number of years service. It is earned and credited to the employee on the employee's anniversary date. A maximum of 30 paid days off may be accumulated.

As of December 31, 1987, sick pay is no longer earned. The hours accumulated to that date were banked and disability insurance coverage was provided, covering employees the first day of injury or the eighth day of sickness.

Upon an employee's termination, unused vacation time is paid off at 100%; unused sick pay is paid off at 50%. Both are paid off at 100% if used during the course of employment. The liability for accrued compensated absences at December 31, 2004 is as follows:

	Beginning of Year	Change	End of Year
Accrued Vacation Pay (100%)	\$ 251,315	\$ 9,501	\$ 260,816
Accrued Sick Pay (100%)	10,280	337	10,617
	<u>\$ 261,595</u>	<u>\$ 9,838</u>	<u>\$ 271,433</u>

### NOTE 12 – FUND EQUITY/NET ASSETS:

#### A. Governmental Fund Financial Statements – Reserves and Designations:

Reserved Fund Balance in the Road Commission's Operating Fund was established to present the portion of fund equity which is not available for expenditure in future periods. The reserve at December 31, 2004 consists of the following:

<u>Reserved For:</u>	<u>Amount</u>
Inventories	\$ 1,645,378
Deposits with Jackson County	828,520
	<u>\$ 2,473,898</u>

# JACKSON COUNTY ROAD COMMISSION

## NOTES TO THE FINANCIAL STATEMENTS

### NOTE 13 – FEDERAL GRANTS:

The Michigan Department of Transportation (MDOT) requires that the local Road Commission report federal and state grant revenues/expenditures for all projects within the Road Commission's jurisdiction. During 2004, federal aid reported as revenue and expenditures was \$2,000,492 for contracted projects and \$0 for negotiated projects (Argyle St. and Lansing Ave – Van Horn Rd. to Henry Rd. are negotiated projects, using \$190,458 of direct state grant funds and \$699,000 of state transportation funds received in exchange for federal aid). Contracted projects are defined as projects performed by private contractors paid for and administered by MDOT (as such, they are included in MDOT's single audit rather than the Road Commission's). The Road Commission acts as the contractor in negotiated projects. A summary of the 2004 grant projects is as follows:

Project Number	Description	Federal Revenue	State Revenue	Expenditures Recognized
44608A	Mack Island Rd/Wolf Lake Rd	\$ 2,769	\$ -	\$ 2,769
49582A	Lansing Ave - Henry to Perrine	725,809	311,175	1,036,984
49677A	Loomis Rd. Bridge	7,054	1,173	8,227
50803A	Elm Rd.	354	-	354
53382A	Lansing Ave. Bridge	14	-	14
53458A	Probert Rd. Bridge	(3,278)	(615)	(3,893)
54024A	Territorial Rd. Bridge	1,881	-	1,881
55996A	Francis St.	984	-	984
55998A	Lansing Ave. - City to Parnall Rd.	409,814	-	409,814
56014A	Lansing Ave. - Losey to County Line	392,647	98,162	490,809
56456A	Territorial Rd./Perry Creek Bridge	(9,773)	(1,832)	(11,605)
59641A	Airport/O'Neill Rd.	362	-	362
59712A	Van Wert Rd. Bridge	290,045	72,511	362,556
59714A	Fitchburg Rd. Bridge	11,286	2,116	13,402
73822A	Gates Rd. Bridge	150,331	-	150,331
74655A	Argyle St.	-	190,458	190,458
78233A	Spring Arbor/McCain Rd.	20,193	-	20,193
	State exchange project - TED Funds for Federal STP Funds:			
	Lansing Ave. - Van Horn Rd to Henry Rd.	-	699,411	699,411
		<u>\$ 2,000,492</u>	<u>\$ 1,372,559</u>	<u>\$ 3,373,051</u>

# JACKSON COUNTY ROAD COMMISSION

## NOTES TO THE FINANCIAL STATEMENTS

### NOTE 14 – EXPENDITURE/EXPENSE REPORTING:

In accordance with Michigan Department of Transportation guidelines, certain expenditures/expenses are reported net of related revenues. These are noted as ‘net’ on the basic financial statements, and are summarized as follows:

#### **Administrative:**

Administrative expenditures/expenses (A515 accounts)		\$	774,358
Less:			
Overhead charges - State	\$	(178,713)	
Handling charges		(10,248)	
Purchase discounts		(4,300)	(193,261)
			<hr/>
Administrative expenditure/expense - Net		\$	<u><u>581,097</u></u>

#### **Equipment:**

Direct equipment expenditures/expenses	\$	2,593,334
Indirect equipment expenditures/expenses		1,025,373
Operating expenses		13,058
		<hr/>
		3,631,765
Less - Equipment rental credits		<hr/>
		(3,538,067)
		<hr/>
Equipment expenditure/expense - Net	\$	<u><u>93,698</u></u>

#### **Capital outlay:**

Capital outlay expenditure	\$	998,068
Less:		
Equipment retirements (Cost less accumulated depreciation)		(54,229)
Depreciation		<hr/>
		(1,235,496)
		<hr/>
Capital outlay expenditure - Net	\$	<u><u>(291,657)</u></u>

# JACKSON COUNTY ROAD COMMISSION

## NOTES TO THE FINANCIAL STATEMENTS

### NOTE 15 – EMPLOYEES’ RETIREMENT PLAN:

The Jackson County Road Commission participates in the Jackson County Employees’ Retirement System, a defined benefit pension plan. This plan was established in accordance with applicable state and local statutes.

#### A. Employee Membership Data:

As of December 31, 2003 (the latest valuation data available) employee membership data related to the pension plan was as follows:

Retirees and beneficiaries currently receiving benefits and terminated employees entitled to benefits but not yet receiving them	82
Active plan participants:	
Vested	62
Nonvested	51
	<u>195</u>

#### B. Benefit Provisions

The pension plan provides pension benefits, deferred allowances, and death and disability benefits. A member may retire at age 60 with 8 or more years of credited service. Benefits vest after eight years. Employees retiring at age 60 with eight or more years credited service are entitled to pension payments for the remainder of their lives equal to 2.5% of their final five year average compensation (FAC). The final five year average compensation is computed using the period of five consecutive years producing the highest average and contained within the last ten years preceding retirement. The County financed portion is limited to 75% of final average compensation.

Pension provisions include a deferred allowance whereby an employee may terminate his or her employment with the Road Commission after accumulating eight years of credited service. The pension benefit is payable at age 60 or any age allowed by the retirement by-laws at the time of retirement. The benefit amount is computed in the same manner as the regular benefit described above.

Provisions are also included for duty and non-duty disability or death benefits. Disability benefit payments are computed in the same manner as regular benefits. The minimum benefit for a disability is 15% of final average compensation, with the maximum County-financed portion limited to 50% of FAC and worker’s compensation. Non-duty disability benefits are payable only after 10 or more years of credited service. Death benefits are computed in the same manner as the regular benefits; in the case of a duty death, additional service credit will be granted up to the amount needed to be vested prior to computation of the retirement allowance of the spouse.

# JACKSON COUNTY ROAD COMMISSION

## NOTES TO THE FINANCIAL STATEMENTS

### NOTE 15 – EMPLOYEES’ RETIREMENT PLAN: (Continued)

#### C. Required Contributions:

Employees of the Road Commission are required to pay 2.5%, plus 50% of the employer contribution above 2.5% (an employee contribution rate of 2.5% for 2004) of their gross earnings to the pension plan. The payments are deducted from the employee’s wages and remitted to the pension plan each bi-weekly pay period. If an employee leaves the Road Commission prior to vesting, these contributions plus interest are returned to the employee.

The Road Commission makes bi-weekly contributions to the pension plan in an amount as determined by the plan’s actuaries. For the year ended December 31, 2004, the required contribution was computed as 1.75% of covered payroll. The Road Commission pension expense for the year ended December 31, 2004 was \$72,431. The actuarial assumptions used to compute this amount are available in the County of Jackson’s Comprehensive Annual Financial Report.

Substantially all of the Road Commission’s employees are covered by this plan. The Road Commission’s total payroll for the year ended December 31, 2004 was \$4,414,500, with \$4,139,000 covered by the pension plan.

Trend information for the plan as a whole is presented below:

<b>Schedule of Funding Progress</b>						
Valuation Date Dec. 31,	Actuarial Value of Assets	Actuarial Accrued Liability	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a % of Covered Payroll
1994	\$ 62,147	\$ 51,380	\$ (10,767)	121.0%	\$ 21,186	0%
1995	\$ 68,283	\$ 57,717	\$ (10,566)	118.3%	\$ 23,040	0%
1996	\$ 76,326	\$ 60,129	\$ (16,197)	126.9%	\$ 22,999	0%
1997(a)	\$ 87,010	\$ 64,468	\$ (22,542)	135.0%	\$ 23,802	0%
1998	\$ 100,030	\$ 68,577	\$ (31,453)	145.9%	\$ 24,209	0%
1999(a)	\$ 112,224	\$ 77,492	\$ (34,732)	144.8%	\$ 26,781	0%
2000(a)	\$ 120,724	\$ 84,373	\$ (36,351)	143.1%	\$ 27,224	0%
2001(a)	\$ 124,551	\$ 92,102	\$ (32,449)	135.2%	\$ 29,687	0%
2002 (a)	\$ 120,693	\$ 104,222	\$ (16,471)	115.8%	\$ 29,763	0%
2003 (a)	\$ 118,340	\$ 112,314	\$ (6,026)	105.4%	\$ 29,566	0%

Note: \$ amounts in Thousands; information is for the plan as a whole.

(a) *After changes in benefit provisions and/or actuarial assumptions and cost methods.*

# JACKSON COUNTY ROAD COMMISSION

## NOTES TO THE FINANCIAL STATEMENTS

### NOTE 15 – EMPLOYEES’ RETIREMENT PLAN: (Continued)

<b>Schedule of Employer Contributions</b>					
Fiscal Year	Actuarial Value of Assets	Contribution Rates as a % of Valuation Payroll*	Computed \$ Contribution Based on Projected Payroll	Annual Required Contribution Based on Actual Payroll	Percentage Contributed
1995	12/31/93	2.46%	\$ 530,487	\$ 582,062	100%
1996	12/31/94	2.70%	\$ 614,524	\$ 645,115	100%
1997	12/31/95(a)	3.35%	\$ 830,477	\$ 780,271	100%
1998	12/31/96(a)	1.05%	\$ 262,012	\$ 254,050	100%
1999	12/31/97(a)	0.22%	\$ 55,039	\$ 59,036	100%
2000	12/31/98	0.00%	\$ -	\$ -	100%
2001	12/31/99(a)	0.00%	\$ -	\$ -	100%
2002	12/31/00(a)	0.00%	\$ -	\$ -	100%
2003	12/31/01	0.00%	\$ -	\$ -	100%
2004	12/31/02	6.21%/1.75%	\$ 1,420,884	\$ -	100%

Note: \$ amounts in Thousands; information is for the plan as a whole.

(a) After changes in benefit provisions and/or actuarial assumptions.

\* Weighted averages.

Some additional information relating to the actuarial assumptions used in the December 31, 2003 valuation follows:

Actuarial Cost Method	Entry Age Normal
Amortization Method	Level percent of Payroll
Remaining amortization period	10 years (open)
Asset valuation method:	4 year smoothed market
Investment rate of return	8.00%
Projected salary increases	5.0%
Includes inflation at	5.0%
Cost-of-living adjustments	none

The details of amounts attributable solely to the Road Commission were not available. Detailed information concerning the Jackson County Employees’ Retirement System is presented in the publicly available County of Jackson, Michigan Comprehensive Annual Financial Report. Copies of this report may be obtained from the Jackson County Administrator / Controller’s Office, 120 West Michigan Avenue, Jackson, Michigan, 49201.

## **JACKSON COUNTY ROAD COMMISSION**

### **NOTES TO THE FINANCIAL STATEMENTS**

#### **NOTE 16 – COMMITMENTS AND CONTINGENCIES:**

##### **A. Claims and Lawsuits:**

In the normal course of its operations, the Jackson County Road Commission often becomes a party to various claims and lawsuits. In the opinion of the Road Commission's legal counsel, if any of these claims should result in an unfavorable resolution to the Road Commission, the Road Commission's liability would be limited to its deductible under insurance policies. The insurer would pay the losses, and there should be no material effect on the financial position of the Road Commission.

##### **B. Trunkline Maintenance Audit:**

As part of its trunkline maintenance agreement with the State of Michigan, the Road Commission's costs charged to the State are subject to audit. During 2004, the State completed its audit of the 2002 costs. As discussed in Note 9, the audit resulted in the Road Commission accruing a liability of \$74,635. The amount due under its 2003 - 2004 contracts has not been determined.

##### **C. Commitments to Townships:**

The Jackson County Road Commission is committed to providing the best road system possible to the residents of Jackson County. This commitment includes the Township Road Agreement matching program. The Road Commission offers to match \$50,000 of construction funds to each of the 19 townships within its jurisdiction. The match may be used up to three years in advance. This program has been highly successful, as Townships contracted for \$607,000 of new projects during 2004. As of December 31, 2004 the unused portion of local match dollars available to Townships for fiscal years 2004 to 2008 was \$3.7 million.

##### **D. Concentrations:**

The Road Commission receives approximately 80% (\$15.2 million) of its revenue from the state and federal governments. A large portion of these revenues (\$11.8 million) is derived from the collection of taxes on gasoline and diesel fuels. These revenues could be susceptible to an economic downturn.

#### **NOTE 16 – RISK MANAGEMENT:**

During the normal course of its operations the Jackson County Road Commission is exposed to various risks of loss related to liability, employee injury, and other circumstances. In certain instances, the Jackson County Road Commission has opted to protect itself from such risks through means other than the purchase of traditional insurance coverage. These exceptions are as follows:



## **JACKSON COUNTY ROAD COMMISSION**

### **NOTES TO THE FINANCIAL STATEMENTS**

#### **NOTE 16 – RISK MANAGEMENT: (Continued)**

##### **A. Liability Insurance:**

The Jackson County Road Commission participates in the Michigan County Road Commission Self-Insurance Pool for its liability insurance. The Pool is a municipal self-insurance entity operating within the laws of the State of Michigan.

The Pool has entered into reinsurance agreements providing for loss coverage in excess of amounts to be retained by the Pool. In the event that a reinsurer does not meet its obligation to the Pool, the responsibility for payment of any unpaid claims reverts to the Pool, and, indirectly, to the Pool members.

##### **B. Health Insurance:**

The Road Commission participates jointly with the County of Jackson in the Jackson County Self-Funded Managed Care Health Insurance program. The premiums paid by the participating employers are the program's source of income, and expenses include: 1) the payment of claims; 2) the payment of an administrative fee; and 3) the payment of Stop-Loss insurance premiums (reinsurance). At December 31, 2004 (unaudited), the Road Commission had \$273,913 deposited in excess of claims incurred with this Fund. The County of Jackson, Michigan Comprehensive Annual Financial Report provides further details regarding this insurance program.

##### **C. Workers Compensation:**

The Jackson County Road Commission participates in the County Road Association Self-Insurance Fund for its workers compensation insurance. The Pool is a municipal self-insurance entity operating within the laws of the State of Michigan.

The Pool has entered into reinsurance agreements providing for loss coverage in excess of amounts to be retained by the Pool. In the event that a reinsurer does not meet its obligation to the Pool, the responsibility for payment of any unpaid claims reverts to the Pool, and, indirectly, to the Pool members.

#### **NOTE 17 – POST-EMPLOYMENT HEALTH BENEFITS:**

The Jackson County Road Commission pays for health insurance benefits for its retired employees and their beneficiaries through the Jackson County Self-Funded Managed Care Health Insurance program. These benefits are funded as incurred and totaled approximately \$499,000 for the year ended December 31, 2004. The total number of retirees covered by this plan at December 31, 2004 was approximately 90.

## JACKSON COUNTY ROAD COMMISSION

### NOTES TO THE FINANCIAL STATEMENTS

#### NOTE 17 – POST-EMPLOYMENT HEALTH BENEFITS: (Continued)

The Governmental Accounting Standards Board has recently released Statement No. 45, *Accounting and Reporting by Employers for Postemployment Benefits Other Than Pensions*. The new pronouncement provides guidance for local units of government in recognizing the cost of retiree health care, as well as any other postemployment benefits (other than pensions). The new rules will cause the government-wide financial statements to recognize the cost of providing retiree health care expenses over the working life of the employee, rather than when they are paid. This pronouncement is effective for the year ending December 31, 2008.

As discussed in Note 8, the Road Commission has set aside \$500,000 in a trust fund with the County in an effort to start pre-funding this liability. The Road Commission also commissioned a study to provide a “rough estimate” of the potential liability. The results of this study indicate that the liability for current retirees ranges from approximately \$7 - \$9 million; the liability for active employees ranges from approximately \$4 - \$5 million. This indicates a total liability of approximately \$11 - \$14 million dollars.

JACKSON COUNTY ROAD COMMISSION  
REQUIRED SUPPLEMENTARY INFORMATION

**JACKSON COUNTY ROAD COMMISSION**  
**REQUIRED SUPPLEMENTARY INFORMATION**  
**BUDGETARY COMPARISON - ROAD FUND**  
**YEAR ENDED DECEMBER 31, 2004**

	Original Budget	Amended Budget	Actual	Variance Favorable (Unfavorable)
<b>Revenue:</b>				
Permits	\$ 40,000	\$ 62,634	\$ 62,634	\$ -
Federal grants	3,219,418	2,772,414	2,000,492	(771,922)
State sources	13,188,082	12,419,755	13,191,677	771,922
Local government sources	702,500	721,107	844,106	122,999
Charges for services -				
State trunkline maintenance	1,894,067	2,263,506	2,274,319	10,813
Interest and rentals	45,000	116,899	116,899	-
Special assessments	83,000	73,270	73,270	-
Gain on asset disposals	-	150,433	213,683	63,250
Other revenues	500	320,822	123,682	(197,140)
Total revenues	19,172,567	18,900,840	18,900,762	(78)
<b>Expenditures/Expenses:</b>				
Primary roads - Construction	-	22,884	22,884	-
Local roads - Construction	-	-	-	-
Primary roads - Heavy maintenance	6,823,500	4,083,640	4,083,639	1
Local roads - Heavy maintenance	1,375,000	2,348,449	2,348,449	-
Primary roads - Routine maintenance	3,010,000	3,947,605	3,947,605	-
Local roads - routine maintenance	3,675,000	4,222,293	4,222,293	-
State trunkline maintenance	1,894,067	2,281,185	2,281,185	-
Distributive expense	2,280,303	-	-	-
Administrative - Net	564,741	581,175	581,097	78
Equipment expense - Net	-	93,698	93,698	-
Capital outlay - Net	(450,044)	(291,657)	(291,657)	-
Total expenditures	19,172,567	17,289,272	17,289,193	79
<b>Excess of Revenues Over (Under) Expenditures</b>	-	1,611,568	1,611,569	1
<b>Fund Balance - Beginning</b>	4,317,792	4,317,792	4,317,792	-
<b>Fund Balance - Ending</b>	\$ 4,317,792	\$ 5,929,360	\$ 5,929,361	\$ 1

**JACKSON COUNTY ROAD COMMISSION**  
**REQUIRED SUPPLEMENTARY INFORMATION**  
**SCHEDULE OF FUNDING PROGRESS**  
**JACKSON COUNTY EMPLOYEES' RETIREMENT SYSTEM**  
**DECEMBER 31, 2004**

The information presented in the required supplementary schedule was determined as part of the actual valuation at the dates indicated.

<u>Valuation Date Dec. 31,</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liability</u>	<u>Unfunded AAL (UAAL)</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>	<u>UAAL as a % of Covered Payroll</u>
1994	\$ 62,147	\$ 51,380	\$ (10,767)	121.0%	\$ 21,186	0%
1995(a)	\$ 68,283	\$ 57,717	\$ (10,566)	118.3%	\$ 23,040	0%
1996(a)	\$ 76,326	\$ 60,129	\$ (16,197)	126.9%	\$ 22,999	0%
1997(a)	\$ 87,010	\$ 64,468	\$ (22,542)	135.0%	\$ 23,802	0%
1998	\$ 100,030	\$ 68,577	\$ (31,453)	145.9%	\$ 24,209	0%
1999(a)	\$ 112,224	\$ 77,492	\$ (34,732)	144.8%	\$ 26,781	0%
2000(a)	\$ 120,724	\$ 84,373	\$ (36,351)	143.1%	\$ 27,224	0%
2001(b)	\$ 124,551	\$ 89,239	\$ (35,312)	139.6%	\$ 29,687	0%
2002 (a)	\$ 120,693	\$ 104,222	\$ (16,471)	115.8%	\$ 29,763	0%
2003 (a)	\$ 118,340	\$ 112,314	\$ (6,026)	105.4%	\$ 29,566	0%

Note: \$ amounts in Thousands; information is for the plan as a whole.

(a) After changes in benefit provisions and/or actuarial assumptions and cost methods.

(b) Before changes in benefit provisions and/or actuarial assumptions and cost methods.

See Note 15 for more complete disclosures relating to the Road Commission's participation in the Jackson County Employees' Retirement System.

JACKSON COUNTY ROAD COMMISSION

ADDITIONAL INFORMATION

**JACKSON COUNTY ROAD COMMISSION**  
**ADDITIONAL INFORMATION - ANALYSIS OF CHANGES IN ROAD FUND BALANCE**  
**YEAR ENDED DECEMBER 31, 2004**

	Primary Road	Local Road	County Road Commission	Total
<b>Revenue:</b>				
Permits	\$ -	\$ -	\$ 62,634	\$ 62,634
Federal grants	1,850,161	150,331	-	2,000,492
State sources:				
Michigan Transportation Fund	8,067,084	3,752,034	-	11,819,118
State critical bridge grants	73,353	-	-	73,353
TED/STP Exchange	699,411	-	-	699,411
State Economic Development Fund grants	599,795	-	-	599,795
Revenues from local governments:				
Cities and villages	-	55,253	-	55,253
Township contributions	-	664,154	-	664,154
Other governments	-	124,699	-	124,699
Charges for services:				
State trunkline maintenance	-	-	2,166,243	2,166,243
State trunkline non-maintenance	-	-	97,263	97,263
Salvage sales	-	-	10,813	10,813
Interest and rentals:				
Interest	15,708	-	16,336	32,044
Retiree investment earnings	-	-	54,607	54,607
Rental of property	-	-	30,248	30,248
Special assessments	-	73,270	-	73,270
Gain on asset disposal	-	-	213,683	213,683
Other revenue	27,862	94,964	856	123,682
Total revenue	11,333,374	4,914,705	2,652,683	18,900,762
<b>Expenditures:</b>				
Construction	22,884	-	-	22,884
Heavy maintenance:				
Roads	3,518,165	1,878,211	-	5,396,376
Structures	516,984	411,049	-	928,033
Safety projects	48,276	-	-	48,276
Special assessments	-	32,965	-	32,965
Non-motorized projects	214	26,224	-	26,438
Total heavy maintenance	\$ 4,083,639	\$ 2,348,449	\$ -	\$ 6,432,088

**JACKSON COUNTY ROAD COMMISSION**  
**ADDITIONAL INFORMATION - ANALYSIS OF CHANGES IN ROAD FUND BALANCE**  
**YEAR ENDED DECEMBER 31, 2004**

	Primary Road	Local Road	County Road Commission	Total
<b>Expenditures: (Continued)</b>				
Maintenance:				
Roads	\$ 2,452,481	\$ 3,144,827	\$ -	\$ 5,597,308
Structures	6,495	-	-	6,495
Roadside parks	3,149	-	-	3,149
Winter maintenance	1,069,305	827,016	-	1,896,321
Traffic Control	416,175	250,450	-	666,625
Total maintenance	3,947,605	4,222,293	-	8,169,898
Trunkline maintenance	-	-	2,183,960	2,183,960
Trunkline non-maintenance	-	-	97,225	97,225
Total trunkline	-	-	2,281,185	2,281,185
Administrative expenses:				
Administrative expenses	426,450	347,908	-	774,358
Less:				
Handling charges	(5,644)	(4,604)		(10,248)
Overhead - State	(98,419)	(80,294)		(178,713)
Purchase discounts	(2,368)	(1,932)		(4,300)
Net administrative expenses	320,019	261,078	-	581,097
Equipment expense:				
Direct expenses	738,163	1,154,838	700,333	2,593,334
Indirect expenses	291,862	456,611	276,900	1,025,373
Operating expenses	3,716	5,815	3,527	13,058
Less - Rental credits	(1,007,075)	(1,575,540)	(955,452)	(3,538,067)
Net equipment expenses	26,666	41,724	25,308	93,698
Capital outlay:				
Capital acquisitions	-	-	998,068	998,068
Less:				
Equipment retirements	-	-	(54,229)	(54,229)
Depreciation	-	-	(1,235,496)	(1,235,496)
Total capital outlay	-	-	(291,657)	(291,657)
Total expenditures	\$ 8,400,813	\$ 6,873,544	\$ 2,014,836	\$ 17,289,193



**JACKSON COUNTY ROAD COMMISSION**  
**ADDITIONAL INFORMATION - ANALYSIS OF CHANGES IN ROAD FUND BALANCE**  
**YEAR ENDED DECEMBER 31, 2004**

	Primary Road	Local Road	County Road Commission	Total
<b>Excess of Revenue Over (Under) Expenditures</b>	\$ 2,932,561	\$ (1,958,839)	\$ 637,847	\$ 1,611,569
<b>Other Financing Sources (Uses):</b>				
Optional transfers	(1,958,839)	1,958,839	-	-
<b>Excess of Revenue and Other Financing Sources Over (Under) Expenditures and Other Financing Uses</b>	973,722	-	637,847	1,611,569
<b>Fund Balance - Beginning</b>	2,116,693	-	2,201,099	4,317,792
<b>Fund Balance - Ending</b>	\$ 3,090,415	\$ -	\$ 2,838,946	\$ 5,929,361

# MARKOWSKI & COMPANY

## CERTIFIED PUBLIC ACCOUNTANTS

2880 SPRING ARBOR ROAD • JACKSON • MICHIGAN • 49203

PHONE (517) 782-9351

FAX (517) 782-0599

K. LAVERNE MARKOWSKI, C.P.A.  
RONALD L. MARKOWSKI, C.P.A.  
DOUGLAS E. ATKINS, C.P.A.

**MEMBERS:**  
AMERICAN INSTITUTE OF  
CERTIFIED PUBLIC ACCOUNTANTS

MICHIGAN ASSOCIATION OF  
CERTIFIED PUBLIC ACCOUNTANTS

ESTATE PLANNING COUNCIL OF  
SOUTH CENTRAL MICHIGAN

To the Board of Road Commissioners  
Jackson County Road Commission

### COMMUNICATION OF AUDITOR/CLIENT RESPONSIBILITIES

We have audited the basic financial statements of the Jackson County Road Commission (the Road Commission) for the year ended December 31, 2004, and have issued our report thereon dated April 22, 2005. Professional standards require that we provide you with the following information related to our audit.

#### Our Responsibility under Generally Accepted Auditing Standards

As stated in our engagement letter dated March 21, 2005, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance that the basic financial statements are free of material misstatement and are fairly presented in accordance with accounting principles generally accepted in the United States of America. Because of the concept of reasonable assurance and because we did not perform a detailed examination of all transactions, there is a risk that material errors, fraud, or other illegal acts may exist and not be detected by us.

As part of our audit, we considered the internal control of the Road Commission. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

#### Significant Accounting Policies

Management has the responsibility for selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the Road Commission are described in Note 1 to the basic financial statements.

We noted no transactions entered into by the Road Commission during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

### **Accounting Estimates**

Accounting estimates are an integral part of the basic financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the general purpose financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate affecting the financial statements was management's estimate regarding infrastructure costs. We evaluated the key factors and assumptions used to develop these amounts in determining that they are reasonable in relation to the financial statements taken as a whole.

### **Significant Audit Adjustments**

For purposes of this letter, professional standards define a significant audit adjustment as a proposed correction of the basic financial statements that, in our judgment, may not have been detected except through our auditing procedures. These adjustments may include those proposed by us but not recorded by the Road Commission that could potentially cause future financial statements to be materially misstated, even though we have concluded that such adjustments are not material to the current financial statements. We proposed no audit adjustments that could, in our judgment, either individually or in the aggregate, have a significant effect on the Road Commission's financial reporting process.

### **Disagreements with Management**

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the general purpose financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

### **Consultations with Other Independent Accountants**

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's general purpose financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

### **Issues Discussed Prior to Retention of Independent Auditors**

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Road Commission's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

**Difficulties Encountered in Performing the Audit**

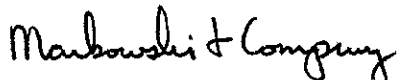
We encountered no significant difficulties in dealing with management in performing our audit. We were very pleased with the cooperation of the administrative staff during our audit.

**Comments and Recommendations**

During the course of performing our audit, we did note some areas in which we believe the Road Commission should devote some attention. These areas are discussed in the attached memorandum of comments and recommendations. In our opinion, these matters are not material.

This information is intended solely for the use of the Board of Road Commissioners and management of the Road Commission and should not be used for any other purpose. However, this report is a matter of public record, and its distribution is not limited.

Sincerely,



MARKOWSKI & COMPANY, CPAs

April 22, 2005

## **JACKSON COUNTY ROAD COMMISSION**

### **ACCOUNTING MEMORANDUM** **COMMENTS AND RECOMMENDATIONS** **THE YEAR ENDED DECEMBER 31, 2004**

During our 2004 audit, we noted no material weaknesses in the internal controls at the Road Commission, and our tests revealed that employees are complying with the requirements of the system (proper paperwork is being filled out, etc.). There is still room for improvement, and in light of that, we offer the following comments:

#### **FOLLOW UP ON 2003 COMMENTS:**

As part of our engagement, we followed up on the 2003 audit comments to determine if management had taken steps to address the concerns noted. We had two comments last year, one regarding the road material inventory and the other relating to budget amendments needed to comply with state law.

We are pleased to report that improvements were made in both these areas during 2004. The inventory computations were improved this year, although some of the adjustments were still rather large. Emphasis needs to continue regarding employee's signing out the appropriate amounts of road materials. This will ensure that the proper projects are correctly charged for usage.

The 2004 budget was appropriately amended to avoid any overexpenditures this year.

#### **CURRENT YEAR COMMENTS:**

While several items were discussed with the administrative staff during our audit, none of them involved significant issues. The staff was encouraged to continue improving its year end procedures, especially the documentation maintained in the year end closing file. Because the State audits the MDOT contract two to three years after the fiscal year ends, such documentation can help clarify any matters that may come up at that time.

#### **CONCLUSION**

It is our expectation that the accounting and financial statement preparation will continue to exhibit improvement during 2005, as the staff has an open and cooperative attitude.